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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-277667

August 13, 1997

The Honorable Daniel S. Goldin
Administrator, National Aeronautics
and Space Administration

Subject: NASA: Interest Earned on Letter of Credit Funds

Dear Mr. Goldin:

As part of our ongoing work on budget issues, we assisted in resolving a disagreement between the National Aeronautics and Space Administration (NASA) and the California Institute of Technology (Caltech). Caltech, a nonprofit private university, operates the Jet Propulsion Laboratory (JPL) for NASA under a 5-year cost-type research and development contract with an annual value of about \$1 billion.¹ The contract is funded by a letter of credit, managed by the Department of Health and Human Services.

The disagreement related to Caltech's retention of interest earned on letter of credit funds after the funds were deposited in its bank account but before Caltech's checks were paid by the bank. We discussed the disagreement with NASA Management Office, Caltech, and Defense Contract Audit Agency (DCAA) representatives and reviewed the NASA/Caltech contract and the regulations governing the use and disposition of funds withdrawn from letters of credit. We also arranged and attended a series of meetings between Caltech and NASA Management Office personnel to help resolve this matter.

Caltech notified NASA in a July 9, 1997, letter that, in consideration of its relationship with NASA, it would remit to the Treasury \$389,540.16 in interest

¹JPL is a federally funded research and development center, with about 90 percent of its work funded by NASA and 10 percent funded by other customers.

earned through June 1997.² Caltech also stated that it would continue to remit interest earnings on a quarterly basis. Caltech's check dated July 29, 1997, has been received. These actions satisfactorily resolve our interest in this matter.

Because similar issues may arise with other letter of credit funded contracts, we are sending copies of this letter to other federal agencies involved in establishing, implementing, and reviewing federal procurement and letter of credit policies, procedures, and practices or in sponsoring large federally funded research and development centers—including the Office of Management and Budget; DCAA; and the Departments of the Treasury, Health and Human Services, Defense, and Energy.

Copies of this letter are also being sent to Caltech and will be made available to others upon request. We appreciate the assistance and cooperation of NASA Management Office, Caltech, and DCAA personnel during our work on this issue. If you or your staff have any questions, please contact me on (202) 512-4841.

Sincerely yours,



Allen Li
Associate Director
Defense Acquisitions Issues

(707259)

²The letter also stated that Caltech would make an additional letter of credit draw of \$137,556.34 to offset previous letter of credit interest payments made to NASA.

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